

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING

Docket No. RM2011-12

PETITION OF THE UNITED STATES POSTAL SERVICE REQUESTING  
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES  
IN ANALYTICAL PRINCIPLES (Proposals Four - Eight)  
(August 8, 2011)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a proceeding to consider proposals to change analytical principles relating to the Postal Service's periodic reports. The proposals, labeled Proposals Four through Eight, are discussed below, and in greater detail in the attached text. (Proposal One for this year was filed on April 6, 2011. Order No. 713 (April 8, 2011), Docket No. RM2011-9. Proposal Two was filed on May 10, 2011. Order No. 727 (May 12, 2011), Docket No. RM2011-10. Proposal Three was filed on May 18, 2011. Order No. 736 (May 23, 2011), Docket No. RM2011-11).

Proposal Four seeks authorization to change from the current methodology used for estimating revenue, pieces and weight in the Revenue Pieces and Weight (RPW) report for international inbound mail relating to settlements with foreign postal administrations to a new methodology using the Foreign Postal Settlement (FPS) System. FPS is an accounting accrual system for international settlement that began in January 2010. The current RPW report methodology allocates two General Ledger Trial Balance revenue accounts to RPW Report inbound categories using prior

International Cost and Revenue Analysis (ICRA) revenue distribution keys. Pieces and weight for most current Inbound RPW Report lines are not reported. Instead, only revenue is allocated using the ICRA distribution.

The proposed methodology would allocate these same two General Ledger revenue accounts using the FPS system, mapping the revenue, pieces and weight constructed in that system by inbound mail processing stream to RPW report categories. The Postal Service seeks to address the issues of separate booked versus imputed versions of revenue, pieces and weight reporting in the ICRA, a topic most recently mentioned by the Commission in the 2010 Annual Compliance Determination (ACD) report (footnote 46, page 130, and footnote 11, page 142). This first step in the process replaces the booked method, under which “inbound revenues for a fiscal year are estimated using volumes from the same period last year and current settlement rates converted to U.S. dollars using a fixed SDR to U.S. dollar exchange” with the Foreign Post Settlement (FPS) system, under which “inbound revenue accruals provided to the ICRA and RPW will be based upon current-year volumes and the current settlement rates, with the resulting inbound revenues converted to U.S. dollars using current SDR to U.S. dollar exchange rates.” The Postal Service seeks approval for this change to coincide with the start of FY2012 RPW reporting.

Proposals Five through Seven involve proposed improvements to the treatment of mail processing costs. Proposals Five and Six would realign cost pools to better reflect current operations. Proposal Seven would change the distribution key used to distribute costs in MODS allied labor cost pools.

Proposal Eight involves carrier delivery costs. The proposal seeks to use information available from the City Carrier Cost System to improve treatment of Express Mail delivery costs. As with some of the above mail processing proposals, this change would also improve the alignment of the methodologies used in the CRA with current operational procedures.

The Postal Service requests that the Commission initiate a rulemaking proceeding pursuant to 39 C.F.R. § 3050.11 to consider these proposals.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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## **Proposal Four**

### **PROPOSED CHANGE IN METHODOLOGY FOR INBOUND RPW REPORTING**

#### **OBJECTIVE:**

This request asks for a change in the reporting of revenue, pieces and weight for inbound mail associated with international settlements to address the issues raised previously by the Commission, most recently in the 2010 Annual Compliance Determination (ACD) (footnote 46, page 130, and footnote 11, page 142). We propose that this change become effective October 1, 2011 (Q1, FY2012). The source of the inbound revenues, volumes and weights will be the Foreign Postal Settlement (FPS) system in effect for International Accounting beginning January 2010 (Q2 FY2010). The FPS accounting settlement system provides an extract to map settlement streams into RPW product reporting.

#### **BACKGROUND:**

##### **Current RPW Reporting of Inbound Products**

The current methodology for inbound product reporting in RPW combines estimates developed from an International Cost and Revenue Accounting (ICRA) report, revenue distribution applied to General Ledger (GL) accounts, plus additional inbound data sources. First, a revenue distribution key limited to six major Mail Classification Schedule (MCS) categories is calculated from the most recent ICRA report. The FY2010 RPW Report used the FY2008 International Cost and Revenue Analysis (ICRA) distribution key. That ICRA distribution key was applied to the sum of GL 41699.000 (International Revenue) and GL 41601.000 (Gain or Loss on Foreign Exchange) to

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report revenue by these product categories. Pieces and weight, however, are not currently reported, nor available in RPW for those product estimates generated through the ICRA distribution key methodology.

Additional inputs for inbound RPW product reporting include specialized reports from Global Business Finance for such things as the Inbound Direct Entry Contracts w/ Foreign Posts, and from the ODIS-RPW sampling system for such things as Customs Clearance and Delivery Fees and Return Receipts. The reporting of these latter two products is related to different General Ledger accounts and is not impacted by this proposal.

The mapping of RPW mail categories shown with their source system to the RPW report lines is provided in the 'Current' tab in the Excel file provided as **Attachment A**. This attachment shows, for example, that the six product categories of Inbound International Single-Piece Letter-Post, Inbound Intl. Surface Parcel Post (at UPU Rates), Inbound International Ancillary Services [Registered Mail], Inbound International Expedited Services, Inbound Air Parcel Post, and Inbound Surface Parcel Post (at non-UPU Rates) are derived from the ICRA distribution methodology. Some of the current category mappings are in conflict with the proposed MCS (Docket No. RM2011-8). For example, inbound return receipt and restricted delivery are reported in Outbound Ancillary Services. In this proposal the Postal Services corrects these classification and reporting issues.

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### Foreign Postal Settlement System

Beginning January 2010 (Q2 FY2010), the Postal Service began utilizing the FPS system for international settlement. The general process for inbound settlement in FPS is to take in foreign dispatch data obtained from dispatch documents (*e.g.*, letter/parcel bills and PREDES messaging, *inter alia*) relating to the volume and weight of inbound mails by stream<sup>1</sup>, apply where necessary statistical estimates of items per kilogram, and then accrue revenue for later terminal dues settlement. The FPS system posts revenue to the book of accounts based on actual inbound transactions processed and estimated transactions received but not yet processed.<sup>2</sup>

Terminal Dues settlement for letter-post is based on weight (target and transitional countries) and pieces (target countries only). While settlement generally occurs months after the close of the calendar year, the FPS system must accrue revenue each month based on the best estimate of mail volume received in that time period. When settlement occurs in a subsequent year, the revenue posted to the corporate GL 41699.000 account is the difference between the accrual and final settlement amount.

### Modifications to FPS Needed for RPW Reporting

During FY2011, several modifications were needed in FPS to adapt to future RPW reporting that are generally not important to settlement processing. The most significant change in FPS was to accommodate the construction of piece reporting for

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<sup>1</sup> FPS Natural Account, Mail Category, Mail Subclass, Mail Type, Receptacle Type, Foreign Postal Administration, Agreement Type, and Classification (Target/Transitional).

<sup>2</sup> The accruals are updated as further inbound transactions are processed. If the estimated accrual overestimated inbound transactions, negative offsetting values may appear in the RPW report, especially for smaller volume categories.

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transitional countries. Settlement for transitional countries is based exclusively on weight. FPS was modified to accept an external entry of items per kilogram (IPK) estimates from the System for International Revenue and Volume Inbound (SIRVI). FPS applies these IPK estimates to the inbound weight to arrive at estimated pieces needed for RPW reporting for transitional countries.

FPS has been modified additionally to capture pieces and weight, and to isolate manual journal voucher (JVs) entries for prior year settlement activity in order for RPW to be separately reported as 'Other Revenue' (see the PROPOSAL section, below). FPS was further modified to identify specifically Market Dominant versus Competitive and Agreement Type so that data can be appropriately mapped in RPW.

### Mapping Inbound Streams to RPW Report Categories

Natural Account, Mail Category, Mail Class and Subclass, Mail Type, Receptacle Type, Foreign Postal Administration, Agreement Type, and Target/Transitional indicator breakouts are available within FPS with accrued revenue, pieces and weight. These "streams" form the basis for Inbound International RPW Reporting in this proposal. Essentially, each stream can be mapped into its RPW Report category. As an example, the Natural Account 'Revenue-Terminal Dues', Mail Subclass 'UL' (Letter Post), Mail Category 'A' (Air), Mail Type 'Ordinary', all Receptacle Types, all Foreign Postal Administrations except Canada, Agreement Type 'UPU', and Classification 'Transitional Countries' would be mapped to the RPW Report category 'Inbound International Letter-Post' under this proposed change in methodology. As a mechanism to map all streams to the appropriate RPW report category, a mapping utility program has been developed within FPS during FY2011. This mapping is discussed in detail in the next section.

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### PROPOSAL:

The Postal Service proposes to use the FPS mail streams with their accounting accruals, pieces and weight, and the RPW inbound mapping matrix to assign revenue, pieces and weight in RPW for most inbound RPW reporting. The 'Proposed' tab in **Attachment A** for Proposal Four provides the mapping matrix from FPS to the RPW report lines. Mappings from source systems outside FPS are also listed for completeness, such as Customs Clearance and Delivery Fees that will still be obtained from ODIS-RPW sampling estimates.

Under this proposal, the RPW report categories proposed would align more closely with the MCS. For example, there would be 'Inbound International Multi-Service Agreement with Foreign Posts' report categories for both Market Dominant and Competitive products.

In this filing, the Postal Service also requests approval to report prior year settlement revenues and currency gains and losses in 'Other Mailing Services Revenue' (Market Dominant) and 'Other Shipping Services Revenue' (Competitive), since these entries have no direct correlation to current period activity and thus would distort revenue, pieces and weight relationships. FPS isolates prior year settlement revenues from current year settlements, and therefore can be directly reported in RPW. For currency gains and losses, FPS records only total gains and losses in GL revenue account 41601. The Postal Service proposes using the Mailing Services (Market Dominant) and Shipping Services (Competitive) revenues to distribute GL 41669 revenue into Other Mailing Services and Other Shipping Services Revenue.



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### RATIONALE:

The accuracy of inbound RPW international product reporting can be substantially improved using the FPS system accounting data and estimated pieces and weight. The ICRA distribution approach, which uses revenues from past reports and does not report pieces and weight, needs to be replaced. The accrual methodology more closely aligns with the monthly activity of inbound mail at a greater depth of detail received from foreign administrations. The new approach also separately reports prior year activity and currency gain/losses on foreign exchange. If this proposed change to inbound RPW reporting were accepted, the Postal Service would propose to begin RPW reporting under this new methodology as of FY2012.

### IMPACT:

To facilitate the understanding and effect of these changes on the RPW report, the Postal Service in the Excel file submitted as **Attachment B**<sup>3</sup> to Proposal Four provides the Q2 FY2011 revenues, volumes and weights as currently published ('Current' column) and then as proposed by incorporating FPS data ('Proposed' column).<sup>4</sup> **Attachment B** highlights the proposed RPW report line changes (yellow), the current RPW Report lines (blue-green) and lines that remain unchanged (magenta). The RPW Report categories have changed to better align with the MCS outlined in Docket No. RM2011-8. As this proposal affects only inbound source system data, the

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<sup>3</sup> The Postal Service today separately files under seal a restricted version of Attachment B that disaggregates data pertaining to competitive products following the adopted format used in the public report. The restricted version provides the Commission with additional data for the confidential categories.

<sup>4</sup> Note that a few modifications were made outside of FPS to construct the PQ2, FY2011 example used in Appendix B. This will be corrected for FY2012 reporting.

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RPW reported numbers other than the inbound categories are unaffected. The exception to this is with the current misclassification of some inbound services to outbound.

Regarding Mailing Services (Market Dominant), **Attachment B** reflects separate reporting for Inbound International Letter-Post, Inbound Canada Post Contractual Bilateral Agreement, and Inbound Intl Multi-Service Agreement mail under First-Class. Next, the new line for International Ancillary Services combines both Inbound and Outbound, and the existing line for Other International Special Services now includes International Reply Coupons and International Business Reply Mail that were previously reported in Outbound International Ancillary Services. Finally, the existing line for Other Mailing Services Revenue now includes Market Dominant prior year settlement and currency gains/losses revenue on foreign exchange (see **Attachment C**).

The Excel file submitted as **Attachment C** to Proposal Four illustrates the construction of Other Services revenue reporting (both Mailing and Shipping Services) for the handling of inbound prior year settlement and currency gains/losses on foreign exchange. **Attachment C** shows: a) FPS reported current and prior year settlement activity revenues; and b) the calculations for the currency gains and losses split. The Market Dominant portion of prior year settlement and currency gains/losses revenues total \$2.1M. Combining this revenue with the current \$304.8M totals the \$306.9M shown in Proposed column (page 2) for “Other Mailing Services Revenue”.

Total Mailing Services revenue (page 2) of \$14.0B, is a decline of \$11.1M (-0.1%) from the current RPW report. The change in revenue reflects the proposed approach that excludes from the product line’s prior year activity and currency

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gains/losses. Due to the inclusion of volume and weights under the proposed approach, volume increases by 91.4M pieces (0.2%) and weight increases by 27.5M pounds (0.7%).

Regarding Shipping Services (Competitive), **Attachment B** reflects separate groupings for Inbound and Outbound. Negotiated Service Agreement (NSA) and non-NSA mail activity are separately reported within Inbound and Outbound. Inbound Air Parcel Post (at UPU rates) and Inbound International Direct Sacks M-bags are non-NSA. Inbound Intl EMS NSA, Inbound Air Parcel Post (at non-UPU rates), Inbound Canada Post Contractual Bilateral Agreement, Inbound Intl. Multi-Service Agr. w/Foreign Posts, and Inbound Direct Entry Contracts with Foreign Posts are NSAs. Finally, the new line for International Ancillary Services combines both Inbound and Outbound, and the new line for Other Mailing Services Revenue reflects the Competitive prior year settlement and currency gains/losses revenue on foreign exchange. For Q2, FY2011, Other Shipping Services Revenue is \$21.4M (see **Attachment C**). RPW currently does not report Other Shipping Services Revenue (current column \$0).

Total Shipping Services Revenue (page 4 of **Attachment B**) of \$2.2B is an increase of \$11.1M (0.5%) compared to the current RPW report. This increase of \$11.1M in Shipping Services revenue offsets the \$11.1M decrease in Mailing Services revenue. Total Shipping Services Mail revenue (excluding ancillary, special, and other revenue) decreases by \$10.3M (-0.5%) because the new approach excludes from the product line prior year activity and currency gains/losses. This revenue decrease is offset by a revenue increase of \$21.4M reflected under Other Shipping Services

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Revenue. Due to the inclusion of volume and weights under the proposed approach, volume increases by 9.3M pieces (2.6%) and weight increases by 57.4M pounds (7.4%).

The impact on Postal Service Total All Revenue (page 5) is unchanged as the RPW ties to the Accounting General Ledger. Also on page 5, Total All Mail volume and weight increases by 100.6M pieces ( 0.2%) and 84.9M pounds (1.7%), respectively, due primarily to the availability of such data from the FPS approach. Total All Service transactions increase by 5.5M transactions (1.1%) for the same reason. The proposed approach will result in the improved reporting of inbound international revenues by MCS categories, the inclusion of volume and weight data not available under the current approach, and the separation of current and prior fiscal year activity and currency gains and losses.

## **PROPOSAL FIVE: NEW MAIL PROCESSING COST POOL FOR FSS OPERATIONS**

### **Objective:**

This request would introduce a cost pool within CRA cost segment 3.1 for Flats Sequencing System (FSS) operations. Currently, FSS operations are included in the cost pool for AFSM 100 operations. The proposed methodology would assign the 3-digit MODS operations for FSS labor to an FSS cost pool. The primary MODS operations for FSS are 530 (Stand-Alone Mail Prep) and 538 (FSS DPS Mode).

### **Background:**

Mail processing cost pools require periodic revision to maintain consistency with Postal Service operations. Over the years, cost pools have been eliminated for equipment no longer in service—e.g., LSMs and FSM 881s—while other pools have been added to accommodate significant deployments of new equipment, such as the AFSM 100. FSS is a major new system for flats processing. Since FSS may be used to sequence mail such as non-saturation carrier-route presort flats which would tend to bypass traditional automated flat-sorting operations, it may have a distinct mail mix justifying a separate cost pool. Additionally, the scale of FSS operations has increased rapidly since FY 2010, as anticipated by the Commission's FY 2010 Annual Compliance Determination (Appendix C, Commission Analysis, page 177).

The Stand-Alone Mail Prep machine (operation 530) and the FSS sorter (operation 538) are interrelated components of the FSS system, akin to AFSM 100 operations with automated induction and the corresponding prep operation 140.

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Accordingly, the Postal Service proposes to pool FSS distribution and preparation operations similar to the existing pooling of AFSM/AI distribution and prep operations.

### **Proposal:**

The proposed FSS cost pool will consist of MODS operations 530 and 538. Costs for the FSS cost pool will otherwise be developed in accordance with the established Commission method for MODS cost pools for distribution operations as detailed in Docket No. ACR2010, folder USPS-FY10-7. Since an FSS system is in operation at an NDC finance number, there will be FSS cost pools in the MODS (plant) group and in the NDC group. The distribution keys for the FSS cost pools would employ current Commission methods used to develop product costs for mail distribution cost pools, including the AFSM 100 pool where FSS operations currently reside.

### **Rationale:**

Please see the above discussion.

### **Impact:**

There are insufficient FY 2010 data to predict the impact of separating the FSS operations from the AFSM 100 cost pool.

## **PROPOSAL SIX: ADDITIONAL “NON-MODS” MAIL PROCESSING COST POOLS**

### **Objective:**

This request would modify the mail processing cost model for non-MODS offices by defining additional cost pools. The proposed additional cost pools include pools for sorting (or “walling”) mail into post office boxes, bulk mail acceptance activities, computer forwarding system activities, business reply mail activities, and other activities pertaining to accountable items (such as carriers’ keys, scanners, and mail with certain special services). The change is intended to improve alignment between MODS and non-MODS mail processing cost pools for post offices, and to clarify cost causation within the current non-MODS cost pool for miscellaneous operations.

### **Background:**

Mail processing operations at post offices are divided into a number of cost pools for product cost measurement. Non-MODS cost pools are established using activity data recorded in IOCS question 18. Labor Distribution Codes (LDCs) and/or MODS operation number define cost pools for MODS post offices. While the post office cost pools in the MODS and non-MODS groups are broadly similar, some cost pools for MODS post offices do not have direct equivalents in the non-MODS group, though the activities corresponding to the LDCs or operation groups can be identified using IOCS. This proposal expands non-MODS cost pools to include analogues to several existing MODS cost pools.

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### Proposal:

The proposal would define the following cost pools within the non-MODS facility group:

- PO BOX, for activities for sorting mail to post office boxes are currently assigned to the non-MODS manual distribution and allied labor cost pools, analogous to the MODS LD44 cost pool.
- Bulk Mail Acceptance (BULKACCP), analogous to the MODS LD79 cost pool
- Computer Forwarding System/Central Mail Markup (CFSCMU), analogous to the MODS LD49 cost pool
- Business Reply/Postage Due (BUSREPLY), analogous to the MODS LD42 cost pool.
- Other Accountable work (OTH ACCT), including mail processing work related to carrier checkout of keys and scanners, and of accountable mail other than Registry operations; analogous to the MODS LD48\_SSV cost pool.

Costs for the additional nonMODS cost pools will otherwise be developed in accordance with the established Commission method for nonMODS cost pools for non-Allied non-Miscellaneous operations as detailed in Docket No. ACR2010, folder USPS-FY10-7.

### Rationale:

As described above, the added cost pools largely mirror cost pools defined for MODS post office (Function 4) operations. Increasing the harmonization of the cost pool definitions for MODS and non-MODS post offices will make it easier to identify the costs associated with certain post office functions without the need for special analyses to disaggregate cost pool-level results. Separating work for sorting mail to post office boxes from other manual distribution will help distinguish shape-related work (e.g. casing letters and flats) from the mixed-shape work at box sections. Separating postage due and other accountable mail work from miscellaneous mail processing reduces the



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risk that costs for miscellaneous work unrelated to reply mail or special services will be excessively distributed to those products.

### **Impact:**

The impact of the proposed cost pool changes for FY2010 is shown in the tables in Tab “P6. non-MODS Addl Cpools Impact” of the attached Excel file “Props6&7.Mail.Proc.Impact.xls.” The first table, Table 2, shows the current ACR2010 product cost volume-variable costs for MODS and NDC facilities in USPS-FY10-7 Part 1, and the proposed FY 2010 product volume-variable costs for the non-MODS as replacement for those in USPS-FY10-7 Part 1. The summation of these three columns in the 4<sup>th</sup> column provides the impact of the proposed results on C/S 3.1 inputs into the B Workpapers. The most notable impact is a reduction in the costs distributed to certain special services. Separating accountable work from other miscellaneous mail processing activities reduces the distribution of not-handling costs for miscellaneous mail processing work to special services. The second table, Table 2a, is a replica of Table 1-4 from USPS-FY10-7 and shows the current ACR2010 accrued pool costs and the proposed pool costs, detailing the cost shifts from the ACR2010 cost pools to the proposed additional cost pools. The third table, Table 2b, provides the volume-variable percentage by cost pool, and a comparison with the current ACR2010 data from USPS-FY10-7.

## **PROPOSAL SEVEN: CHANGE TO MIXED-MAIL DISTRIBUTION KEYS FOR MODS ALLIED LABOR COST POOLS**

### **Objective:**

The Postal Service proposes to use only tallies from the MODS cost pools associated with non-ISC plant operations to form the “all pools” distribution keys for MODS allied labor pools. The change is intended to prevent allied mixed-mail costs at plants from being excessively distributed to categories of mail that bypass the plant network, for example mail drop-shipped to destination delivery units and mail processed through the NDC network.

### **Background:**

When MODS-based cost pools were introduced in Docket No. R97-1, a particular concern was whether direct tallies in allied labor operations (employed suitably) would be representative of the unknown distributions of products for mixed-mail costs. Since they tend to involve more container handling, and since containers are often observed with mixed-mail contents (or empty), allied labor cost pools tend to generate relatively fewer direct tallies and more mixed-mail tallies than distribution cost pools. In particular, mailers contended that highly presorted mail was disproportionately likely to be observed as “direct tallies” in allied labor operations—e.g., as pallets or other containers of identical mail—and thus could be assigned excessive mixed-mail costs if the mixed-mail distribution keys were formed within allied labor cost pools.

The Commission’s mail processing cost methodology sought to minimize the risk of mixed-mail distributions biased “against mail that is presorted, non-preferential, or bulky in shape” by distributing allied labor mixed-mail costs using distribution keys

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formed over all cost pools within an office group. See PRC Op., Docket No. R97-1, ¶¶3145-3146. Thus, MODS allied labor costs are distributed using tallies from all MODS cost pools, NDC (BMC) allied labor distribution keys use tallies from all NDC cost pools, and non-MODS allied labor mixed-mail costs use tallies from all non-MODS cost pools.

### **Proposal:**

Based on the above discussion, the Postal Service proposes to use only tallies from the MODS cost pools associated with non-ISC plant operations in LDCs 11-14, (also LD15LMLM), 17, and 18 to form the “all pools” distribution keys for MODS allied labor pools. The change would exclude IOCS direct tallies (i.e. tallies identifying a specific product) in the MODS Function 4 and International Service Center (ISC) cost pools from the allied labor distribution keys, with the result that the distribution keys would be formed using IOCS direct tallies from all MODS Function 1 cost pools, i.e., all pools for non-ISC plant operations.

### **Rationale:**

While intended to reduce the risks of biased mixed-mail cost distributions, the current methodology nevertheless may lead to biased cost distributions by pooling tallies from MODS Function 1 (plant) and MODS Function 4 (post office) operations. The bias occurs because certain mail that bypasses plant mail processing operations—including mail drop-shipped to destination delivery units (DDUs) and mail processed through the NDC network—would be expected to generate direct tallies when observed at MODS post offices. For instance, observations of activities such as separating

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bundles from direct DDU pallets or incoming secondary sorting of Package Services pieces should lead to direct tallies under IOCS data collection procedures. Those tallies, in turn, would enter the “all pools” distribution keys and distribute a portion of allied labor mixed-mail costs at MODS plants to mail that bypassed the plants and thus would not have been part of the mixed-mail.

The current methodology also treats tallies from MODS and non-MODS post offices inconsistently. Since non-MODS post offices are treated as a separate office group in the mail processing model, direct tallies from non-MODS post offices are excluded from MODS allied labor distribution keys. The differential treatment of the two groups of post offices is not associated with a corresponding difference in mail flows: both MODS and non-MODS post offices would normally receive mail from MODS plants and NDCs, as well as direct drop-shipments of DDU mail. Were the inconsistency to be eliminated by including all post office tallies in the allied labor keys, the apparent bias against certain mail, including mail from highly-presorted and/or bulky non-preferential product categories, would tend to be exacerbated by including more tallies of such mail in the mixed mail distribution keys. Therefore, the proposed new methodology does not follow that option

ISCs are specialized facilities for processing International Mail. Direct tallies at ISCs will reflect costs of sorting and related mail processing activities for various International Mail products, including products that are rarely observed in domestic mail operations. Particularly to the extent ISC operations involve more manual processing than corresponding domestic plant operations, including ISC tallies in the MODS plant

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allied labor may disproportionately assign plant costs to certain International Mail products.

The proposed methodology reduces potential bias of MODS allied labor mixed-mail distributions by excluding MODS post office tallies that include tallies for mail bypassing plants. It harmonizes treatment of post office tallies, in that non-MODS direct tallies are currently (and, in the Postal Service's view, appropriately) excluded from the MODS allied labor distribution keys. Since MODS post office tallies are small overall relative to tallies from MODS Function 1 plant cost pools, the reduction in bias should outweigh the potential loss of information for the contents of plant mixed mail.

The proposed treatment of ISCs is symmetric with the current mail processing model's treatment of NDCs. That is, ISCs have somewhat specialized operations and a distinct product mix compared to plants, such that their tallies, when pooled with plant tallies for the allied labor mixed-mail distribution keys, may not be representative of the share of International Mail in plant mixed mail. The proposed methodology should alleviate that concern.

### **Impact:**

The impact of the proposed change on FY2010 costs is shown in Tab "P7. Allied Mixed Mail Impact" of the attached Excel file "Props6&7.Mail.Proc.Impact.xls." The table shows the current ACR2010 product volume-variable costs for NDC and non-MODS facilities in USPS-FY10-7 Part 1, and the proposed FY 2010 product volume-variable costs for the MODS facilities as a replacement for those in USPS-FY10-7 Part 1. The summation of these three columns in the 4<sup>th</sup> column provides the impact of the

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proposed results on CS 3.1 inputs into the B workpapers. The cost shifts are between products, but the migrated and fixed costs remain the same costs as shown in the ACR 2010 in Part 1 of USPS-FY10-7. Thus, the percents of volume-variable costs for each of the allied cost pools do not change from those shown in the ACR 2010 documentation. The product cost shifts generally reduce costs for highly presorted and/or drop-shipped products, for Package Services products (processed primarily through the NDC network), and for International Mail.

## **PROPOSAL EIGHT: NEW TREATMENT OF EXPRESS MAIL AS ACCOUNTABLE MAIL ON CITY CARRIER LETTER ROUTES**

### **OBJECTIVE:**

The Postal Service proposes a methodology change for estimating the volume of accountables on city letter routes. Specifically this proposal seeks to replace the assumption that all Express Mail pieces delivered on city letter routes be treated as accountables with information collected from the City Carrier Cost System (CCCS) which more accurately reflects their delivery characteristics.

### **BACKGROUND:**

Accountable mail pieces are defined as those which require customer contact. Currently, in cost segment 7, all Express Mail pieces delivered on letter routes are treated as accountables. This assumption was based on the previous operational procedure for delivering Express Mail which was to attempt customer contact regardless of the 'Signature Waiver' option. An operational change has invalidated this assumption. Now, the procedure for delivering Express Mail with 'Signature Waiver' is to first scan the piece and then either place it in the mail receptacle or leave it in a secure location. CCCS via the 'Signature Waiver' data element (yes or no) identifies Express Mail pieces that were placed in mail receptacle (regular delivery), left in secure location (deviation), or required customer contact (accountable).

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### **PROPOSAL:**

This proposal seeks to use CCCS data to match delivered Express Mail pieces with their proper cost pool (e.g. letters, flats, small parcels, deviation parcels, or accountables). If the piece was either placed in the mail receptacle or left in a secure location, the cost of scanning the piece is also assigned to Express Mail (scanning costs are already included for accountable pieces).

### **RATIONALE:**

This proposal follows the general principle of assigning appropriate CCCS volumes to their respective letter route cost pools.

### **IMPACT:**

This proposal reduces the unit cost of Express Mail by less than three tenths of a percent. No other product has a unit cost rise by more than two tenths of a percent.